

Fiscal Services Division Legislative Services Agency Fiscal Note

SF 2026 - Phase Out of Sales Tax on Residential Utilities (LSB 5365 SV.1)
Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - As Amended and Passed by the Senate

Description

Senate File 2026 as amended and passed by the Senate provides for a phase-out of the sales and use tax on residential energy utility bills. The language reenacts a previous phase-out provision. In addition, the Bill freezes the utility sales tax phase-out at 1.0% on January 1, 2005, and dedicates the revenue after that date to an Alternative Energy Incentive Fund created in the Bill.

Background

House File 1 (Utility Tax Suspension and Phase-out Act of 2001) reduced Iowa's 5.0% sales and use tax on residential energy utilities by 1.0% per year, beginning January 1, 2002. House File 692 (Tax Law Changes, Grow Iowa Values Fund, and Regulatory Change Act of 2003) froze the phase-out at 3.0% through June 30, 2008. The Governor vetoed the tax freeze language. In addition, the adoption by Iowa of model Streamlined Sales Tax legislation in HF 683 (Grow Iowa Values Fund Appropriations Act of 2003) re-wrote Iowa's sales and use tax laws. The combination of the vetoed tax rate freeze and the enactment of the revised sales and use tax legislation left residential utility tax rates out of the sales and use tax code. This returns the rate to 5.0% on the effective date of the new sales and use tax code (July 1, 2004).

The Revenue Estimating Conference increased the revenue estimate for FY 2005 by \$63.4 million in response to the tax law change. Enactment of SF 2026 would return Iowa law to the previous phase-out schedule and reduce FY 2005 General Fund revenues by the same \$63.4 million.

Fiscal Impact

The reinstatement of the previously enacted sales tax decrease would reduce General Fund revenues by \$63.4 million in FY 2005, \$82.7 million for FY 2006, and \$93.2 million for FY 2007 and subsequent fiscal years. This portion of the fiscal impact re-enacts the previous tax phase-out.

Dedicating the 1.0% sales tax on residential utility sales after January 1, 2005, will have the additional impact of reducing FY 2005 General Fund receipts by \$9.1 million in FY 2005 and \$8.9 million in FY 2006. There would be no General Fund fiscal impact after FY 2006.

Iowa law provides that any growth in sales/use tax above 2.0% in a year is dedicated to the Grow Iowa Values Fund. Therefore, some portion of impact listed in the previous two paragraphs will likely fall on the Grow Iowa Values Fund.

The 1.0% tax on residential utilities will provide funding for the Alternative Energy Incentive Fund created in the Bill. The tax is projected to raise \$9.1 million in FY 2005 and \$18.0 million per year in future fiscal years.

Source

Federal Energy Information Administration

Dennis C Prouty

April 6, 2004

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
